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BEFORE THE ARIZONA CORPORATION COMMISSION

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CHAIRMAN
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SUSAN BITTER SMITH
COMMISSIONER

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ORIGINAL

IN THE MATTER OF THE APPLICATION OF
ARIZONA WATER COMPANY, AN ARIZONA
CORPORATION, FOR A DETERMINATION
OF THE FAIR VALUE OF ITS UTILITY
PLANT AND PROPERTY, AND FOR
ADJUSTMENTS TO ITS RATES AND
CHARGES FOR UTILITY SERVICE
FURNISHED BY ITS EASTERN GROUP
AND FOR CERTAIN RELATED
APPROVALS.

Docket No. W-01445A-11-0310

Arizona Corporation Commission

DOCKETED

JUN 27 2014

DOCKETED BY 

NOTICE OF FILING

The RESIDENTIAL UTILITY CONSUMER OFFICE ("RUCO") hereby provides notice of
filing the Direct Testimony of Robert B. Mease, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 27th day of June, 2014


Daniel Pozefsky
Chief Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 27th day
3 of June, 2014 with:

4 Docket Control
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9 this 27th day of June, 2014 to:

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By Cheryl Frawley

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-11-0310

DIRECT TESTIMONY
OF
ROBERT B. MEASE

ON BEHALF OF
THE
RESIDENTIAL UTILITY CONSUMER OFFICE

JUNE 27, 2014

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On May 30, 2014, Arizona Water Company ("AWC") filed its initial request for the recovery of costs as approved by the Arizona Corporation Commission ("ACC"). The recovery of System Improvement Benefit ("SIB") eligible costs was authorized in Decision No. 73938 and was upheld on rehearing by Decision No. 74463.

The Company is requesting that expenditures of \$570,300 be approved for inclusion in rate base and that revenues generated from the rate base increase, of \$75,610 be recovered from the Cochise Water System ratepayers without a general rate case filing. While the SIB expenditures were made for infrastructure improvements in the Bisbee System, ratepayers in both Bisbee and Sierra Vista will be affected. The bill for each residential ratepayer will increase by approximately \$9.84 or approximately 2.75 percent on a yearly basis.

RUCO has been clear on its position in opposition to the SIB. There is currently a suit pending before the Arizona Court of Appeals questioning the constitutionality of the SIB. Another aspect of the suit is the question on the Rate of Return ("ROR") authorized by the Commission. Both the inflated Rate of Return and the SIB were approved to address the issue of the infrastructure replacement. In summary, the Commission is allowing double recovery for the amount of the SIB recovery currently being requested in this filing.

RUCO does not intend to belabor the record with more of the same testimony. RUCO does not agree with the increase in AWC's Eastern Group.

INTRODUCTION

Q. Please state your name, position, employer and address.

A. My Name is Robert B. Mease. I'm Chief of Accounting and Rates employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please state your educational background and qualifications in the utility regulation field.

A. Attachment 1, which is attached to this testimony, describes my educational background, work experience and regulatory matters in which I have participated. In summary, I joined RUCO in October of 2011. I graduated from Morris Harvey College in Charleston, WV and attended Kanawha Valley School of Graduate Studies. I am a Certified Public Accountant and currently licensed in the state of West Virginia. My years of work experience include serving as Vice President and Controller of Energy West, Inc. a public utility and energy company located in Great Falls, Montana. While with Energy West I had responsibility for all utility filings and participated in several rate case filings on behalf of the utility. As Energy West was a publicly traded company listed on the NASDAQ Exchange I also had responsibility for all filings with the Securities and Exchange Commission.

1 **Q. Please state the purpose of your testimony.**

2 A. The purpose of my testimony is to present RUCO's position regarding Arizona
3 Water Company's ("AWC" or "Company") request for a System Improvement
4 Benefit ("SIB") charge for its Bisbee Water System. Bisbee is part of the
5 Cochise Consolidated System that also includes the Sierra Vista System.
6

7 **BACKGROUND**

8 **Q. Can you please describe a brief history of this docket as it relates to the**
9 **Company's request for a SIB mechanism?**

10 A. On August 11, 2011, the Company filed an application seeking adjustment to
11 the rates and charges for its Eastern Group of water systems. Also included in
12 this filing was AWC's request for a distribution system improvement charge
13 ("DSIC") for its Superstition, Cochise and Falcon Valley water systems. While
14 the Commission did not authorize a DSIC mechanism in Decision No. 73736 it
15 left the case open to allow the parties to continue settlement discussions on
16 the Company's proposed DSIC. On April 1, 2013, a settlement agreement was
17 filed by Staff and other intervening parties setting forth the details of the SIB
18 mechanism and settled all issues related to the Company's proposed DSIC.
19 On June 27, 2013, the Commission issued Decision No. 73938 that approved
20 the settlement agreement and established the SIB mechanism for the Eastern
21 Group. RUCO filed a request for rehearing, the request was granted, the
22 hearing was held and Decision No. 73938 was supplemented by Decision No.

74463 which once again confirmed the recovery of SIB expenditures and the SIB mechanism is now in place for the AWC.

Q. Was RUCO a party to the settlement as agreed to by the other intervening parties in this rate application?

A. No, RUCO did not agree with the SIB mechanism in this case and RUCO has not agreed to a SIB mechanism for any utility that has filed requesting such a mechanism since the initial SIB was approved in the Eastern Group.

AWC's REQUEST FOR INCREASE IN RATES

Q. What is AWC requesting in this filing?

A. The request as filed by AWC will allow the Company to increase rate base by approximately \$570,300 in the Cochise water system. The revenue impact resulting from the increase in rate base to the ratepayers in the Cochise system is \$75,610 after taking into account the 5 percent efficiency credit.

SIB Revenue Requirement	\$ 79,590
Less: Efficiency Credit	<u>(3,980)</u>
Increase in Revenue	<u>\$ 75,610</u>

The net increase to each residential ratepayer in both the Bisbee and Sierra Vista Systems is \$9.84 or a yearly increase of approximately 2.75 percent.

1 **Q. Can you briefly explain why RUCO does not agree with a SIB**
2 **mechanism?**

3 A. First, the types of infrastructure improvements for which the Company seeks
4 cost recovery for through a SIB mechanism are routine in nature and if
5 approved by the Commission results in an increase in the Company's FVRB
6 without a meaningful determination of fair value. These are plant
7 improvements that regulated utilities normally make as existing assets reach
8 the end of their useful lives. There is nothing extraordinary about these types
9 of plant additions.

10
11 Second, ratepayers receive no benefit from cost savings that are related to the
12 plant additions except for a paltry 5 percent efficiency credit. The majority of
13 savings resulting from new plant additions recovered through the Company-
14 proposed SIB would be retained by AWC between general rate case
15 proceedings or distributed in the form of dividends to its shareholders.

16
17 Third, the SIB eliminates regulatory lag to the benefit of the utility and reduces
18 pressure to operate the system in an efficient manner all at the expense of the
19 ratepayer.

20
21 Fourth and foremost, RUCO believes that the SIB is illegal and contrary to the
22 state constitution requiring the establishment of fair value when increasing
23 utility rates.

1 **Q. Are there other reasons why RUCO opposes the SIB?**

2 A. Yes. The original purpose of a "DSIC" mechanism was to allow recovery of
3 project costs for the replacement of old water system infrastructure that was
4 leaking excessively and providing less than reliable service. The SIB,
5 Arizona's replacement for a DSIC, has quickly elevated into Company's now
6 requesting projects that are not for replacement of old infrastructure and the
7 Commission is now authorizing a SIB for wastewater systems. The original
8 intent of such a mechanism has basically been overridden by the Commission
9 and replaced with an open door for Companies to collect additional revenues
10 between rate case filings.

11

12 **Q. Does this conclude your testimony on AWC's Eastern Group?**

13 A. Yes, it does. In summary, RUCO does not support the Company's request for
14 recovery in the Cochise Water System.

ATTACHMENT 1

ROBERT B. MEASE, CPA Education and Professional Qualifications

EDUCATION

Bachelors Degree Business Administration / Accounting - Morris Harvey College.

Attended West Virginia School of Graduate Studies and studied Accounting and Public Administration

Attended numerous courses and seminars for Continuing Professional Educational purposes.

WORK EXPERIENCE

Controller

Knives of Alaska, Inc., Diamond Blade, LLC, and Alaska Expedition Company.

Financial Manager / CFO

All Saints Camp & Conference Center

Energy West, Inc.

Vice President, Controller

- Led team that succeeded in obtaining a \$1.5 million annual utility rate increase
- Coached accountants for proper communication techniques with Public Service Commission, supervised 9 professional accountants
- Developed financial models used to negotiate an \$18 million credit line
- Responsible for monthly, quarterly and annual financial statements for internal and external purposes, SEC filings on a quarterly and annual basis, quarterly presentations to Board of Directors and shareholders during annual meetings, coordinated annual audit
- Communication with senior management team, supervised accounting staff and resolved all accounting issues, reviewed expenditures related to capital projects
- Monitored natural gas prices and worked with senior buyers to ensure optimal price obtained

Junkermier, Clark, Campanella, Stevens

Consulting Staff

- Established a consulting practice that generated approximately \$160k the first year of existence
- Prepared business plan and projections for inclusion in clients financing documents
- Prepared written reports related to consulting engagements performed
- Developed models used in financing documents and made available for other personnel to use
- Performed Profit Enhancement engagements
- Participated during audit of large manufacturing client for two reporting years

Prior to 1999, held various positions: TMC Sales, Inc. as **Vice President / Controller**, with American Agri-Technology Corporation as **Vice President / CFO** and with Union Carbide Corporation as **Accounting Manager**. (Union Carbide was a multi-national Fortune 500 Company that was purchased by Dow Chemical)

PROFESSIONAL AFFILIATIONS

Past Member - Institute of Management Accountants

Member - American Institute of CPA's

Member – Society of Utility and Regulatory Financial Analysts

Past Member –WV Society of CPA's and Montana Society of CPA's

RESUME OF RATE CASE AND REGULATORY PARTICIPATION WITH RUCO

<u>Utility Company</u>	<u>Docket No.</u>
Arizona Water Company (Eastern Group)	W-01445A-11-0310
Pima Utility Company	W-02199A-11-0329 et al.
Tucson Electric Power Company	E-01933A-12-0291
Arizona Water Company (Northern Group)	W-01445A-12-0348
UNS Electric	E-04204A-12-0504
Global Water	W-01212A-12-0309 et al.
LPSCO	SW-01428A-13-0042 et al.
Johnson Utilities	WS-02987A-13-0477